

January 16, 1980

LETTER 774

Jan. 4, DJIA 828.84; PTI 1143; A-D Ratio -18.55

Jan. 11, DJIA 858.53; PTI 1166; A-D Ratio -17.20

PONDERING: Last week I read *Barron's* "Panel of Pros" and their predictions for 1980. The general consensus was "mild recession" and sideways to higher stock market. Most of the experts thought stocks were at or near the bargain level. Maybe so, I'm not going to argue with them.

But here's a thought that bothers me; in fact I'd say it haunts me. The November, 1979 issue of *Institutional Investors Magazine* questioned 72 senior portfolio managers at leading institutions. One question was, who would you pick to manage *your own* funds? The excellent firm of Neuberger Berman in NYC came in second, which was indeed an honor. Now the centerpiece of Neuberger Berman's spectrum of funds is Guardian Mutual Fund, a highly regarded, beautifully run no-load fund.

If you had put \$10,000 in Guardian on June 1, 1950 (when the fund started) and if you had reinvested all the dividends and distributions you would now have \$198,000, a growth rate of 11% a year compounded—and that from one of the finest managements on Wall Street. Of course, that's the past, and no one can guarantee how they'll fare in the future.

But you can get over 12% on Treasury bills today, which is above the growth rate of one of the best funds in the business. So what is that comparison telling us? It's telling us that with today's interest rates, stocks (regardless of what the pros tell us) are no bargains. It's telling us that with great selectivity we may be

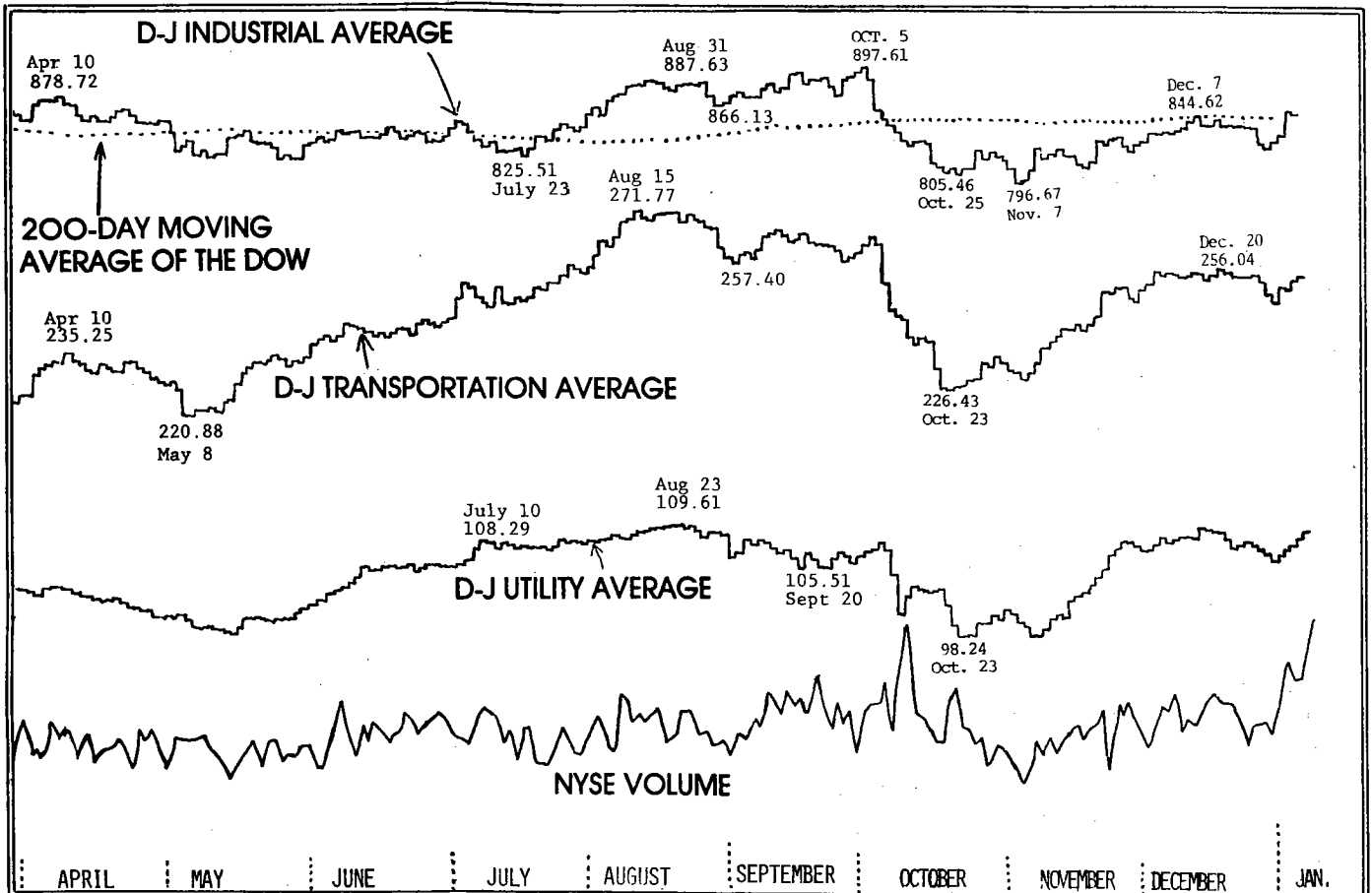
entitled to buy stocks instead of T-bills, but can we consistently out-select one of the best fund managers on Wall Street?

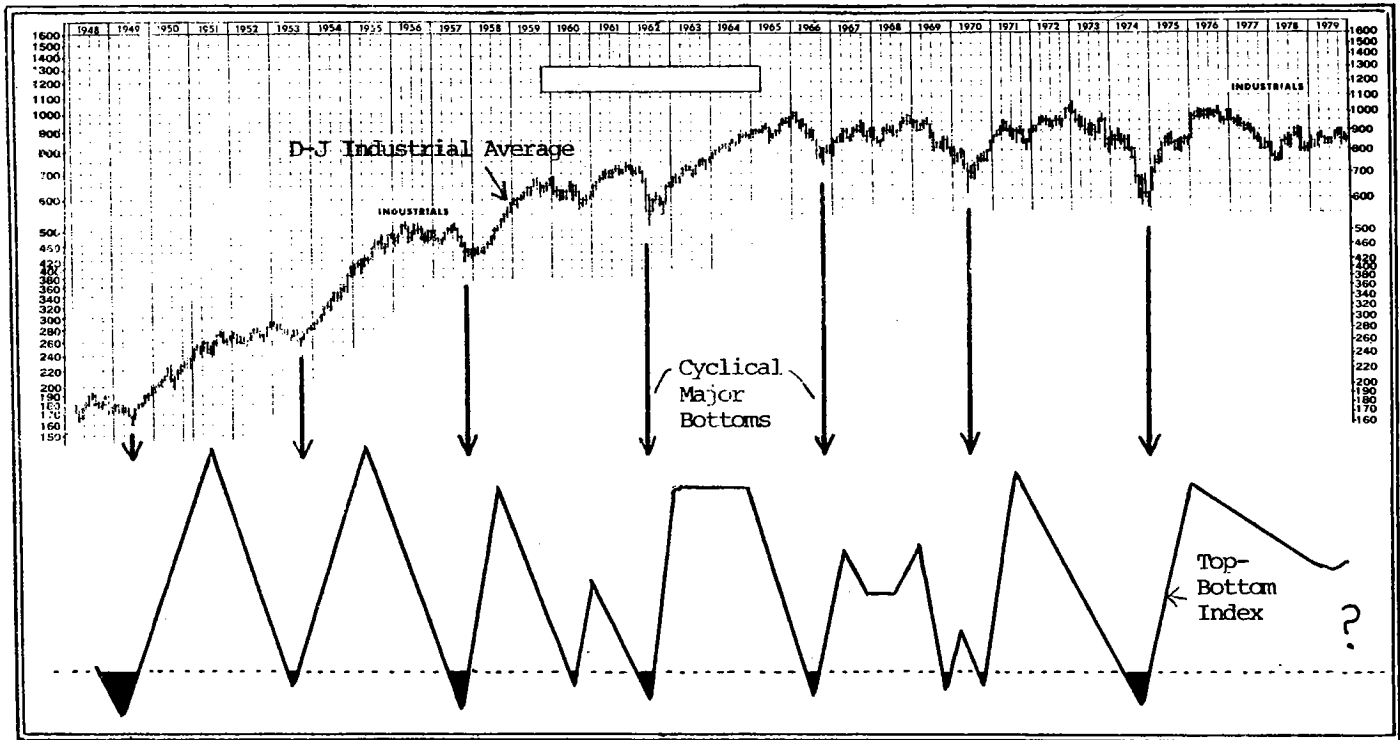
There is one caveat. I believe we are entitled to take a large position in stocks when the market registers a major over-sold bottom. Such bottoms are few and far between, but when they do arrive they offer stocks at bargain prices with the odds for gain being greatly enhanced. So I'll speak about those major over-sold areas in another section of this Letter.

1980---LET'S START: The fascinating thing about markets is that they tend to "see" events and situations far ahead of people. And the paradox, of course, is that people make the markets.

I'm going to start my second Letter of 1980 with two charts (let's call them views or concepts) that I think are most important at this time (charts, page 2). The first view concerns the stock market alone. The second concerns the stock market and real money, and of course, by real money I mean gold.

Turning to the charts, we see the D-J Industrial Average over a 32-year span—from 1948 to the present. Below the Dow I have drawn an index which I use for the identification of major, cyclical bottoms in the stock market. This index registers "fully over-sold" when it goes below the level of the horizontal dotted line and into the solid black area.





The important part of this study is that since World War II, there has never been a span of more than 50 months when we have not had a MAJOR bottom in the stock market. The average time span between bottoms on this index is 40.8 months.

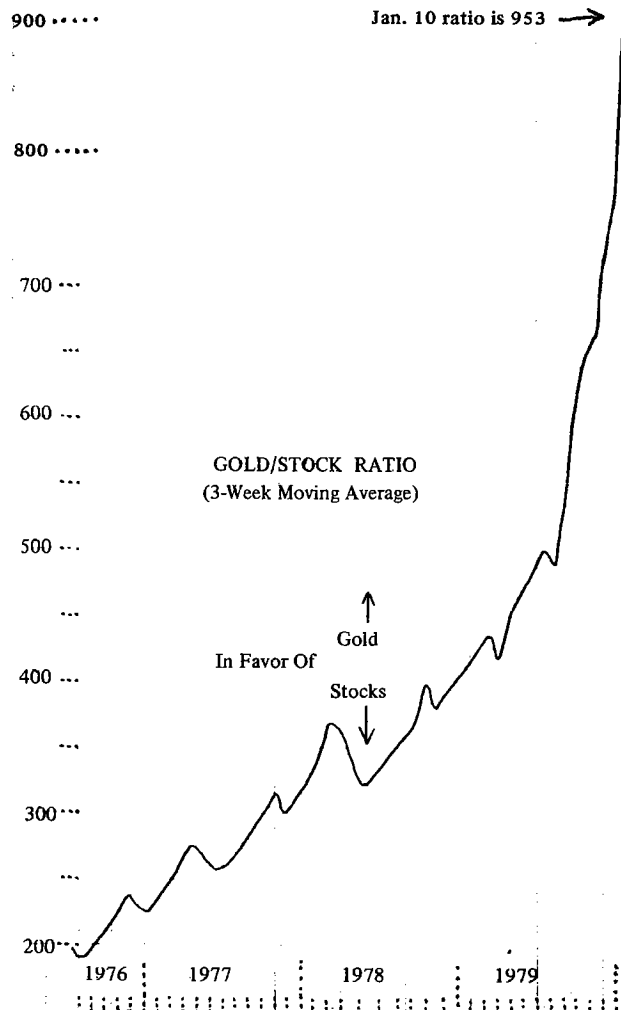
The last bottom on this index was registered during October-November, 1974. Since then 63 months have elapsed—and the index now hovers in a range closer to its top zone than its bottom. I can't prove it, but I feel that this "unnatural" time span puts a subtle strain on the market. It's like an auto engine that's been running for 5 days with never a shut-off to cool down.

It's been said that nothing new ever happens in the stock market, and I believe it. But we do see variations. The 63 month span to the last sold-out bottom is a major variation, and I find myself constantly wondering about the meaning of this phenomenon. Most previous major over-sold bottoms have preceded important recessions in the economy. Could the continued high level of this index be telling us that there will be no recession worthy of the name in 1980?

The second chart is one that has appeared here before, but I believe it again belongs in this early Letter of 1980. This is the ratio of stocks compared with gold. Or, to put it another way, this is a relative strength chart of stocks against gold. To construct this ratio, I use the broad Standard & Poor's Composite Index (which includes ALL NYSE common stocks). Each Thursday I divide the Index by the Thursday price of gold. If this ratio is rising, it means that the relative strength is in favor of gold. If the ratio is declining, the relative strength is in favor of common stocks. In order to smooth out jagged moves, the ratio is plotted in the form of a three-week moving average.

What we see here is one of the most powerful (some call it outlandish) relative strength charts ever seen. There has really only been one major primary bull trend in the world since 1976, and let's face it, that primary bull trend is in gold. On a value basis, gauged against commodity and other prices, gold is probably worth about \$300. But gold is better than double that figure, and I pin the difference on the "fear" factor, lack of confidence in paper currency and fear of any of two dozen potential catastrophes that "could" occur.

At any rate, my gold/stock ratio is telling me that gold is where the real action has been. But note that the ratio has been climbing for over three years, which is a long time for a relative strength trend. And the ratio has recently accelerated to the blow-off stage, which sometimes indicates a coming reversal. My ratio will identify it when it comes.



NEAR-TERM: With current inflation rates running 13 to 15%, the urge to "make up for lost purchasing power" by beating the markets is strong indeed. Furthermore, investors are besieged on all sides by touts, advertisements, promises and come-ons, all dedicated to the proposition that "you too can join the ranks of the inflation millionaires." But the millionaires themselves will tell you that it's not that easy. And as I've said so many times before, when the inflationary winds are blowing, "it's the man who loses the least who is apt to be the winner."

For instance, pity the poor commodity traders. With precious metals going through the roof, many loaded up on the grains on the logical theory that the grains and meats must follow. Then Carter cut off large segments of grain shipments to Russia and Commodities dove, leaving many a trader poorer but not necessarily wiser. In the stock market, many an investor bought oils to the hilt, feeling that oil profits had no way to go but up. But then the oil tax came out of Washington, and now we see Exxon down 9 points from its high, Standard of Cal. down 8 points from its high, Union Oil down 6 points, Standard of Indiana down 9 points and on and on.

On a cold reading of the current situation, I would have to think that defense stocks are at least "where some of the action is," and I have been recommending them. Happily, they have been climbing. The coal stocks "should" be where the action is, since I don't see any other way we can go to get the needed energy. For this reason, perhaps all accounts should now carry North American Coal and Pittston. It's logical, and if you forget precise timing, logic usually pays off in the market.

Meanwhile, the stock market is trying to make sense out of both an economic mystery ("will there be a recession or not?") and a veritable torrent of political crises (What will Russia do? What will Iran do? What will Carter do, if anything, etc.).

And I have no doubt that the recent explosion in gold has set many a stock trader's heart a-flutter. "How long, how long?" he sighs. And by "how long" he means, how long before some of the frenzy of the gold market rubs off on the "real values" of the investment world, the equities.

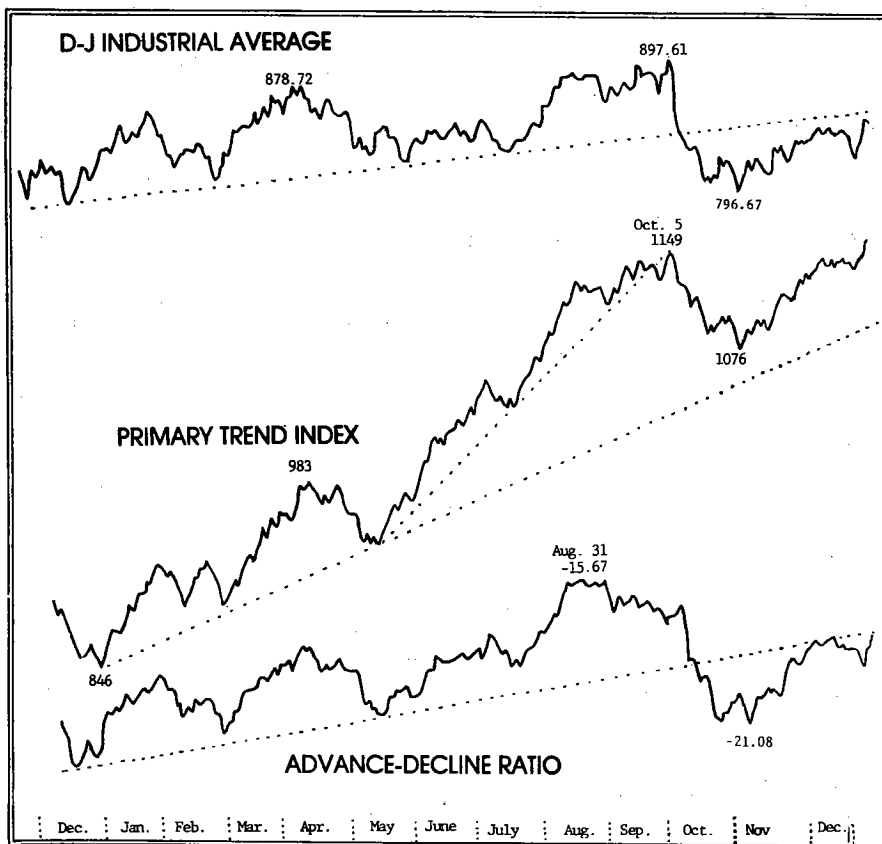
Perhaps this explains some of the excitement which greeted Wall Street last week, particularly on January 8 when the Dow spurted 19.71 points within the space of a few hours of the afternoon. Perhaps this explains the 10-minute late tape which greeted the market opening on January 9. By any reckoning, the stock market came to life last week. And with this thought in mind, I want to talk about the Primary Trend Index.

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Back in the late-1960's and early '70's I felt a growing sense of frustration over all the market tools and devices I was using. If a technical device was newly discovered or if an index worked exceedingly well, it immediately developed a following, and with a large following the tool soon sputtered into uselessness. Too large an audience always seems to spoil a market barometer.

Around 1971 I came up with my Primary Trend Index, a device which by both logic and construction had to measure the build-up or deterioration in the market's technical make-up. The Primary Trend Index (PTI) is an amalgam of eight critical averages and indices and includes such an important cross-section measurement of the market that it cannot be fooled.

My main problem in 1971 was that I had no history of the PTI to work with. Therefore, I was hopeful but uncertain of its usefulness. Now, in 1980, I have 9 years of the PTI behind me, including a few major market advances and one of the worst market collapses on record. Throughout the 9-year period, the PTI has been invaluable. Long-term readers know that my biggest mistakes have been when I was suspicious or distrustful of the PTI's reading. Let me put it another way; I was smart enough to develop the PTI—but the fact is that the PTI is much smarter than I am (which, of course, is a blow to my ego).



I've always attempted to disclose all my thinking where the market is concerned. I have no secrets. No secrets but ONE, and that secret is the formulation of the PTI. My rationale for this single market secret is obvious enough. If the formula for the PTI becomes public knowledge, then in view of its usefulness, everyone would soon be calculating it. Within a few months the market would discount it, and the PTI would be just another relic like the Confidence Index or the Pig Iron Barometer.

One concept is very important to understand in relation to the PTI. The PTI should not be used as a forecaster of very short-term trends. For instance, the PTI cannot forecast a sudden 20 point drop in the Dow. For this kind of reading, I believe non-confirmations in the Averages are best. But for gauging the broad direction of the intermediate trend of the market, I have found the PTI to be invaluable.

For instance, after the extraordinary smash of last October, the question was, "is the technical position of the market building up bullishly, or is it deteriorating?" For the answer, study the accompanying daily chart. The PTI hit a low of 1076 on November 7, comparable to the November 7 Dow low of 796.67. From there,

despite a sluggish Dow and despite a laggard advance-decline ratio the PTI plodded steadily higher.

By December 27, the PTI had risen to 1145, just 4 points under its record high of 1149 (recorded October 5, 1979). On end-of-the-year weakness, the PTI showed great downside resistance, the lowest reading being 1136 on January 3. By January 7 the PTI had climbed to 1147, just 2 points under the record high again.

On January 8 the market surged with the Dow up over 19 points. Nobody knew the reason for the sudden explosion. It was probably purely technical. Because on that day the PTI pushed through to a new record high of 1155. And that has really been the story of the PTI—very little give on the downside during “weak” market days, but a steady push to the upside during days of market strength.

* *

As you can see on the same chart, the A-D ratio has reluctantly followed the PTI. The A-D is still well below its August 31 high, and this tells us that the market has been very selective during periods of strength. Broad moves are measured by broad advances in the A-D ratio. We have not had a broad, sustained advance in over a year. Such broad, money-making advances usually start from major over-sold market bottoms. We have not had one of these since late-1974.

Question: Is it possible that we’re just not going to see a major sold-out market bottom this year?

Answer: Sure it’s possible. Anything is possible in the current semi-chaotic economic atmosphere. In which case, we’ll have to follow the PTI more closely than ever. My belief is that a steadily rising PTI from here will mean (1) no market collapse, (2) no major over-sold low, and (3) continued stock selectivity with money being made only if you are in the right stock groups.

Question: How do you account for the erratic, trading-range nature of today’s markets?

Answer: As the total debt builds, as the Government resorts to more and more manipulation to try to keep the economy on an even keel, the various markets will be under greater and greater strain. Thus, the markets become like steel springs which are first stretched, then compressed. The natural flows are aborted. The big moves today are apt to come from panic emotions and fear (witness gold and silver on the upside, the grains on the downside) rather than natural forces. This makes investing far more hazardous than is usually the case.

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As we start 1980, the Averages are in an interesting position from a Dow Theory standpoint. We have an unprecedented four years of divergence between the D-J Industrial and the Transport Averages. It’s hard to believe that the divergence can continue for another year.

Consider this: The 1976 high close for the Dow was 1014.79. The 1977 high close was 999.75. The 1978 close was 907.74, and the 1979 close was 897.61. This is a 4-year series of descending peaks for the Dow!

Now think about this. In the entire history of the D-J Averages going back to 1897, the phenomenon of 4 declining peaks in the Dow (over 4 years) has been equalled only once before; it has been surpassed only once before. The last 4-year series of declining tops appeared in the Dow during 1929-32. That series ushered the US into the Great Depression. A 6-year series of

declining tops occurred during 1937-42. That series saw the nation enter into the maelstrom of World War II.

All of which tells us something about the present period. Because we know that all hell must break loose to give us one of those rare series of 4 or more descending tops in the Dow. And certainly all hell has broken loose in 1979. But is there more? That is the overriding question.

Last year’s high in the Dow was 897.61. I believe that the 897.61 peak was a very important one. If the Dow can better that high in 1980, a bearish series of 4 declining tops will have ended. If that happens, I believe the market will be telling us that better things lie ahead. But if 1980’s Dow high is under 897.61, we will have added a 5th descending top to the Dow. My guess is that an extension of the series to 5 declining tops would be the market’s way of telling us that the nation’s troubles are fated to continue and even compound. And that would be discouraging to all of us—not only as investors but as Americans.

TECHNICAL COMMENTS: From the standpoint of Dow’s Theory, it should be noted that the Industrial Average recorded a peak of 844.62 on December 7 while Transports recorded a peak of 256.04 on December 20. On January 8 the market surged and Industrials bettered their 844.62 peak. On January 10 Transports pushed well over their own December peak, thereby confirming the Industrial penetration. This is a bullish signal under Dow Theory. From here, the next bullish targets are the October high of 897.61 for Industrials and the August peak of 271.77 for Transports. If those two highs are bettered, the implications would be extremely bullish for the market.

On January 8 the PTI (as mentioned) hit a new high. On the same day my on-balance-volume index for the NYSE recorded a new high. And again on the same day my cumulative index for the most-active stocks touched a new high. The strength here was undeniable.

What is just as interesting is that my negative volume index (based on days when volume contracts below the preceding day) is beginning to look strong. All of this technical build-up (along with the new highs in the PTI) suggest that the market may be “seeing something”, something that is bullish but not now apparent.

We know one thing: speculation is in the air. The moves in gold and the metals point to it. The spectacular interest in gambling throughout the country underscores it. The growing number of players in the commodity futures markets and the options markets indicates it. It’s possible that Wall Street is about to get its share of the speculative bug. And there’s nothing that the Street would like better—nothing!

STOCKS: I spent a lot of time over the past week going over the long-term point & figure chart book put out by Market Charts, 57 W. 57 St., NYC 10019. These charts show concentrated action in stocks, with some patterns going back 5, 10 and even 20 years. My conclusion is that the greatest promise (on a strict technical analysis of the charts) seems to be concentrated in those stocks which I would put under the broad classification of “science.” This is another way of saying that the growth wave of the future lies with science. If our problems in any of dozens of fields (defense, energy, communications, construction, etc.) are going to be solved, they’re going to be solved via new concepts and applications of science.

In CATV Acton Corp (Amex) looks strong with a huge head & shoulders pattern formed. In communications and publishing,

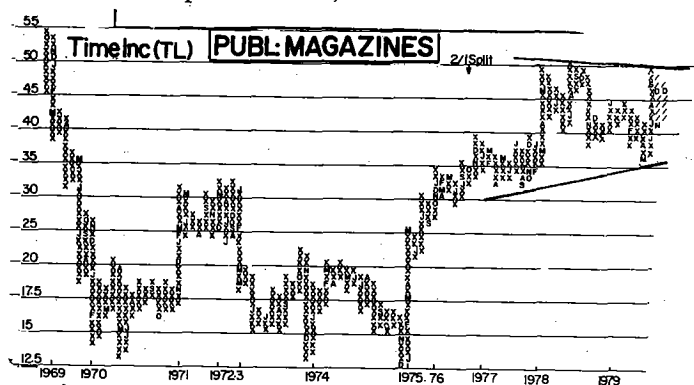
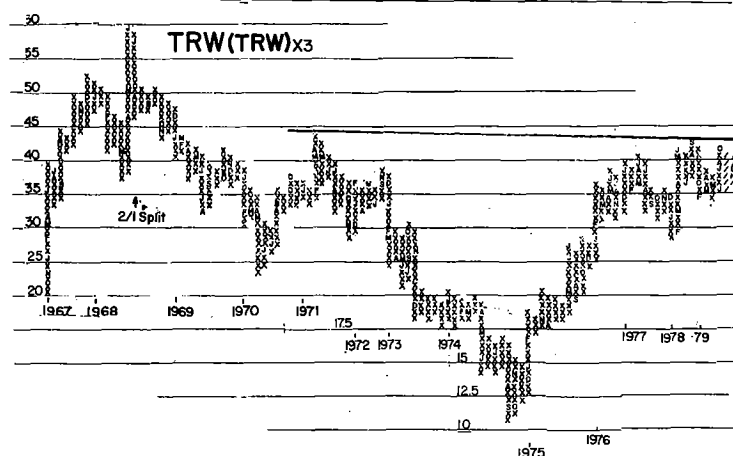
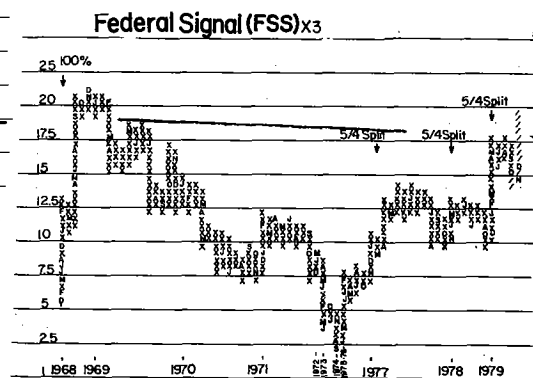
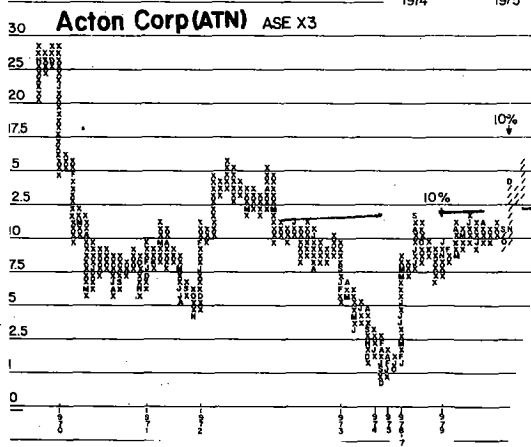
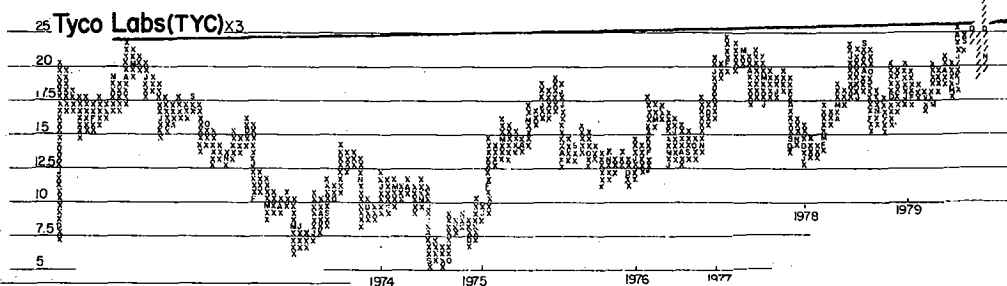
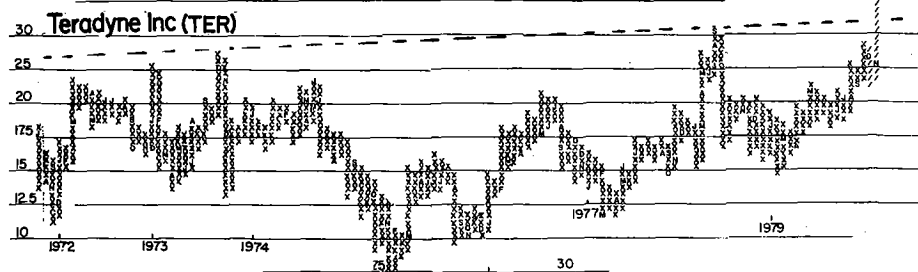
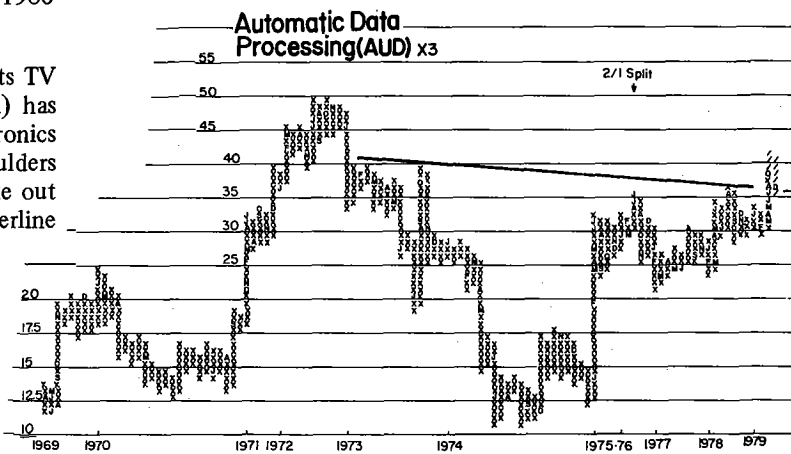
Time Inc. would be my pick (Time's hidden big plus is its TV division and Home Box). In electronics, Teradyne (TER) has formed a huge base going back to 1972. Also in electronics I like TRW, which has now formed a massive head and shoulders bottom. In the same area I like Tyco Labs which just broke out of a giant bottom when it passed 25. Federal Signal and Esterline are two other electronic stocks that show extended accumulation. Finally, Automatic Data processing shows a 6-year accumulation pattern. I illustrate a few of these stocks through courtesy of Market Charts. Incidentally, I know of no better way to identify patterns of major accumulation than through point & figure charts that go back at least 5 years (and preferably 5 to 15 years).

NOTES & QUOTES: Somerset Maugham (with thanks to Ned Davis) wrote, "If a nation values anything more than freedom, it will lose its freedom. And the irony of it is that if it is comfort or money that it values more, it will lose that too."

I don't begrudge a man a million dollar house, two Rolls Royces and a swimming pool the size of a football field—if he can afford all those luxuries. But if it's all "bought" via IOU's, that's another matter. Which brings me to the subject of the US and its monster free-for-all-party. It was great while it lasted, but now the bills are coming due—and the whole world sees the party for what it was. What was it? It was the biggest on-the-cuff binge in history, an enormous IOU extending from here to the moon.

The US wasn't satisfied with just a free lunch. We've lived on a free 7-course dinner which lasted from 1945 to the present. But the markets know that there are no free lunches and damn sure no free 7-course perpetual dinners. So we wrecked the great, "good as gold" dollar to pull off the magic, and now we're being exposed for the dollar creditors of the world to see.

What scares me is not that the debts must be paid for. Hell, I've



always known that we'd pay for the party. But W. Somerset Maugham was no boob, and he knew that when you hock the family jewels to buy a few years more of comfort, you face the danger of losing something. That something is your liberty.

We've already lost some of our economic liberty. Every tax is a curb on economic liberty. Every tax is the Government or the State or the city saying, "part of what you've earned is mine." Every regulation is an abridgement of liberty, and every "official" form you fill out is an intrusion on your time and energy and often your privacy. But my guess is that we haven't seen anything yet. The way I view it, we're sobering up (following the party) at a very late stage of the game, and we're not even sobering up on our own. We're sobering up because the rest of the world is shaking us and throwing cold water in our face.

From this point on, it's going to get harder. We're losing out on the economic front, the geo-political front and the military front. We're spent up and pooped out, and suddenly the crises are beginning to hit. And that's what the gold and silver move is all about.

"What's going on?" I'm asked. People call and say, "How far is gold going? What does it mean?" And I answer, "In the old days, when a Texan or a Californian saw a grizzly or heard a scary noise in the back of the house, he grabbed for his carbine or his six-gun. Today, when another kind of bear (maybe a Russian bear) or another kind of noise is heard, men grab for gold. Now a six-gun didn't always save you from a grizzly and gold may not save you from today's dangers. But both are good thoughts, tried and true. So go argue with history."

Speaking of guns, a friend called me and said, "You know, I've been trying to buy one of the new Ruger mini-14's and everyone is sold out." The Ruger mini is an excellent all-around .223 gas operated repeating rifle for use in hunting and home defense. I was interested so I dug into some other figures. Since 1969 in San Diego County, registered over-the-counter sales of hand guns were 171,000 pistols—and rifles sell far better than pistols! Or as our local newspaper put it last week, "There are enough guns in San Diego County to equip the armies of many of the world's smaller nations." Call it fear, call it the Wild West, call it anything you like. The West has a tradition of defense, and it's a long tradition. It's one that many Easterners simply do not comprehend.

We just visited with a young American who is living in Sweden. "Europeans can't believe how cheap everything is in America," he says. "In Sweden we pay \$45 for a bottle of whisky, \$2 for a pack of cigarettes."

Personally, I am of the opinion that food is still a great bargain in the US. Here in San Diego we see bananas for 29-cents a pound, whole wheat flour for 26-cents a pound, broccoli for 33-cents a pound, chicken for 66-cents a pound. If you skip the steak and cake(which you should do anyway), you can eat in this country probably cheaper than you can in 80% of the rest of the world.

Women's Wear Daily (Jan. 2) has a most interesting article on what Europe's "Super rich" are doing and saying. I include a few excerpts from what I think is an instructive piece

PARIS — If there is one place Europe's Super Rich think is IN for the Eighties, it's the United States. From apartments and brownstones in New York to ranches in Montana, the Europeans, especially the Italians and Germans, are buying and renting property almost as fast as the Arabs. "Let's face it," says London-based interior decorator Diana Phipps, "America is like a bargain basement these days. Every time the dollar falls here, property gets that much cheaper there."

Combined with the Austrians ("We like the investment idea of it all," says Austrian Countess Apponyi), the Germans (who are even more petrified than the Italians to speak publicly about property matters) and a few of the English ("We can't really afford it, but we love to go," says Lady Diana Cooper), it seems that the Europeans are gearing up for an invasion of the U.S. unparalleled since the days of Christopher Columbus.

Besides the favorable exchange rate, Europeans most often cite the beauty and political stability of the U.S. as reasons for visiting (or living) there. According to Irene Amic, wife of French perfume manufacturer Jean Amic, America is still unspoiled compared to most of Europe. "I spent this summer in Wainscott (visiting with New York interior designers Bob Denning and Vincent Fourcade), and I found the beaches 10 times more beautiful than Europe's," she says.

Despite the relatively horrible weather, however, almost all Europeans have an affection for New York. "It is the capital of the world for theater, art, music and, to some extent, fashion," says Countess Apponyi, Princess Michael of Kent's cousin. "London is downright dull compared to New York," adds Lady Sonia Melchett.

"New York has become the mecca for Europeans," observes actress Leslie Caron, who lived there for 20 years. "It is an absolute requirement nowadays to spend at least two weeks a year in Manhattan. You're completely out-of-touch if you don't."

The South also holds its attractions — especially Florida and the horsey country of Virginia. So does California, where many Germans are said to be buying vineyards, and the western ski country. "Aspen and the Lake Tahoe region haven't become as chichi as Gstaad and the other Swiss and Italian resorts," says Nicky Bellotti, a Milanese banker who has a house in Aspen. "If people want to ski seriously, they go to America."

Europeans also seem to be attracted by the novelty of the U.S. "People here are sick to death of Brittany and the South of France," says Parisian businessman Jean De Mortemart. "My children would rather go to Disneyland than spend another summer on the Mediterranean."

"It's not the quality of life that attracts me," explains Kim D'Estainville, who is getting ready to produce his first play on Broadway. "The quality here is better. But it's the openness of America; the love of new ideas and new people. There just isn't that self-contained, claustrophobic feeling that permeates London and Paris."

Million dollar author Mario Puzo ("The Godfather") has written a fascinating book entitled "Inside Las Vegas" (Charter pocket books, \$2.25). I recommend this book to all who are interested in money, Vegas, gambling. Puzo was an obsessive life-long gambler—but he also knows himself. I thought this excerpt was worth including here

"From my own experience, I had to give up gambling at a certain period of my life because I found I could no longer write if I continued gambling. Now for the first time in my life, making more money than I have ever made in my life, more financially secure than I have ever been, I have come to the decision that

I cannot afford to gamble. The simple reason being that to gamble is to risk, that is, to approach the 'ruin factor.' When I was poor the ruin factor was not important. Hell, I was ruined anyway. But now I have too much to lose and the ruin factor is decisive. Of course, I had to lose a great deal of money and come near to 'ruin' before I could figure this out. Gambling education is not cheap."

My comment: Lord, do I wish that all my subscribers could fully understand the full meaning of Puzo's statement. A few years ago I wrote that if a subscriber had \$100,000, he could live on the income. Thus, he could never starve and consequently he could not afford to speculate with that money (as opposed to conservative investing). Today, I raise that figure to \$150,000 (the T-bill return on that amount is \$18,000 a year). If you have \$150,000, you've got a nest egg. Only a damned fool would put that nest egg up at high risk. But there are a lot of fools around, believe me!

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Now that we've made it all the way to the 1980's, I thought a few paragraphs about the journey would be appropriate. This wrap-up and comment from last week's LA Times hit me as excellent, and I want to include it here. The concept of CHANGE is a paradox, because the old way is usually boring and the new way is usually frightening. Nevertheless, 98% of the world clings desperately to the status quo. But nothing these days disappears as fast as the status quo, and one has to learn to live with "the new order!"

In the last century, Alexis de Tocqueville, the acute French observer, found Americans to be totally convinced that "their whole destiny is in their hands." Forty years ago, Henry Luce was proclaiming the start of "the American century." Nothing so knocked hell out of either idea as the decade now ending.

Relentlessly, Vietnam shredded our omnipotence, and Watergate befouled our trust in government. Inflation picked our pockets without mercy, and abroad the mighty dollar staggered like a collapsing drunk chased by a lynch mob. Ordinary announcements—"the air quality today will be unacceptable"—numbed us with their ordinariness.

The oil shortage gave us our first shocking taste of limits and made our foreign policy hostage to foreigners. Miasmas like the Jonestown massacre in Guyana defied our very understanding of human nature. In the United Nations, which we started, we found ourselves pilloried and outnumbered, and in the world we found democracy a shrinking idea, which was not the way history was supposed to go.

In Iran, for weeks, we found ourselves helpless to free Americans held captive in our embassy, this near the end of a decade which would not let go of violence to our pride and self-perception.

In the middle of the decade, a brief shining hour, as telling for its warmth as for its brevity. July 4, 1976, and didn't it feel good feeling good again? Wasn't it nice that everybody behaved? Nobody marched in protest, nobody raised hell, nobody took a shot at the President, nothing desecrated the moment. On our 200th birthday, we were allowed a sense of family, for a day.

On the third day of the '70s, Gallup published a poll in which Americans were asked whom they admired most in the whole world. Richard M. Nixon, they said, followed by Billy Graham and Spiro T. Agnew.

It was a hard time for prophets. If you were middle-aged in the '70s, you belonged to a generation that was asked to absorb more change than probably any in history. When we married, we married forever, we thought. Wives would be content to be wives and mothers, we thought. Our children would do better em-children anymore or the road signs you grew up with or, for that matter the Boston Braves. Suddenly, there was alienation, the new math, a new wrath, pot acid and rock, and who remembered Tommy Dorsey? Suddenly, somewhere in the '70s, the youth uproar subsided and, it seemed, the kids might be coming home. But they weren't marrying and they weren't having children and the thing called American way of life now had to include the fact that nearly half of our marriages were ending in divorce.

Suddenly, the money you earned was not what you took home and what you put in the bank on Tuesday was worth less on Thursday.

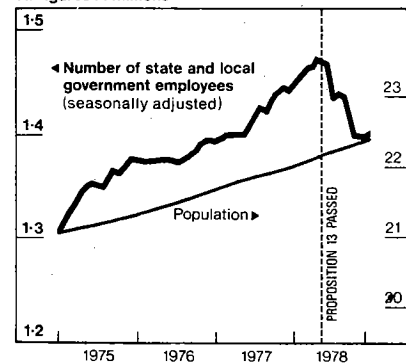
Suddenly, while you're still looking for the Boston Braves—were they in Milwaukee or Atlanta?—it turns out that baseball gloves now come from Taiwan, the big hotel downtown belongs to the Arabs, the Russians are buying up our grain, the British now own Gimbels,

Welfare, we begin to see, may always be with us; government spending now accounts for more than a third of the gross national product in the mecca of free enterprise; the federal government tries to bail out Chrysler, and in Detroit, where they still remember the bloody sitdown strikes, the union now holds a seat on the company's board of directors;

GOLD: I've got a lot of subscribers who have made fortunes in gold. But I doubt if many of these "new millionaires" would willingly trade most of those "gains" for a stable dollar and an honest US Government. I'm firmly of the opinion that we'll never lick inflation (short of a crash and depression) unless we vote inflation out by LAW. That means legally limiting government spending. As you can guess, I'm a 100% Jarvis man. This little chart shows what's been happening in California after

Public employees in California

all figures in millions



Source: California Roundtable Taxation Task Force

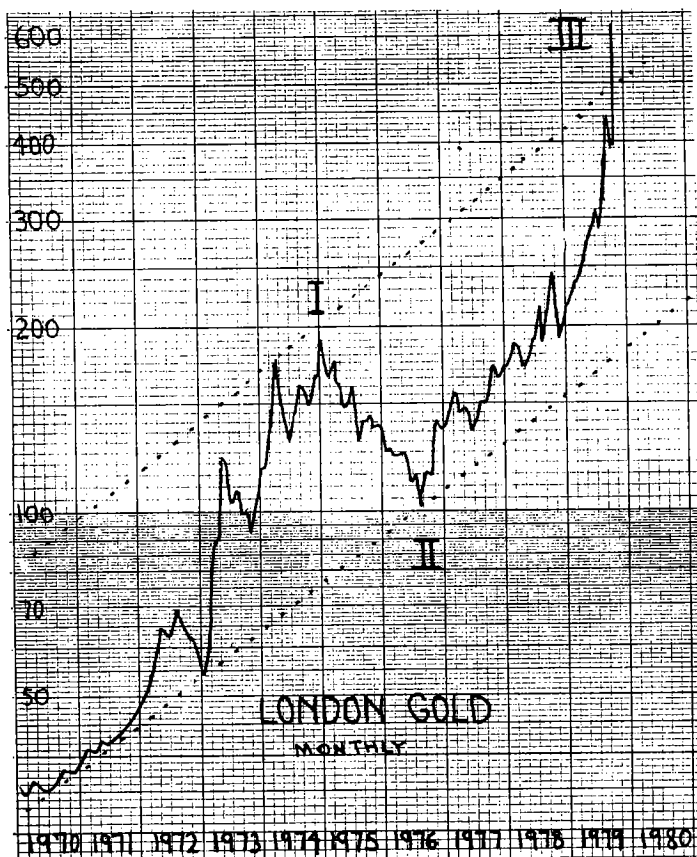
Proposition 13. What's happening is the State employment has been going down. And in June, California voters will get a chance to cut state taxes by 50%, which will mean a further big cut in State spending here. And I'm all for it—100%.

Give us a Federal law limiting Government spending and systematically cutting down Federal deficits and this country will survive as a free enterprise system. I don't believe there is ANY OTHER WAY that we're going to get these idiots in Washington to halt running this country and its currency into the dirt. Do you want to know something about defense in these United States? Of the massive \$130 billion defense budget, about \$31 billion actually goes into weapons and hardware. The rest goes to salaries, pensions, inflation, etc. Now if that's not scary, if that's not deceptive, I don't know what is!

So in desperation honest men turn to gold. They forego the interest that currency pays, they forego the ease of banking their dollars, and they go out and buy gold coins or bullion and hide them in their vaults. And now the unbelievable is happening. The average citizen is lining up at coin shops to buy a Kruggerand or a Corona, buying them with US paper dollars that he doesn't trust any longer. The full meaning of what's happening today is enough to turn a strong man's stomach.

But my job is not to reason why or moralize. My job now seems to be to try to save my subscribers from the deceitfulness and greediness of our own Government. So I talk about the technical position of gold, of where we are, of whether gold is still a buy and whether it will take 900 or 1000 paper dollars to buy an ounce of real money say six months or maybe even three months from now. I don't know, maybe some of the sad letters I'm getting (in increasing quantities) are getting to me. Believe me, if you read some of the stories I get here it would probably make you angry too.

What can I say about gold here? There isn't much I can say that the chart doesn't already say. Perhaps the most useful chart at this time is my chart of the three exponential moving averages of gold. These exponential averages are much more sensitive than



standard moving averages; they will catch changes in direction or momentum much quicker.

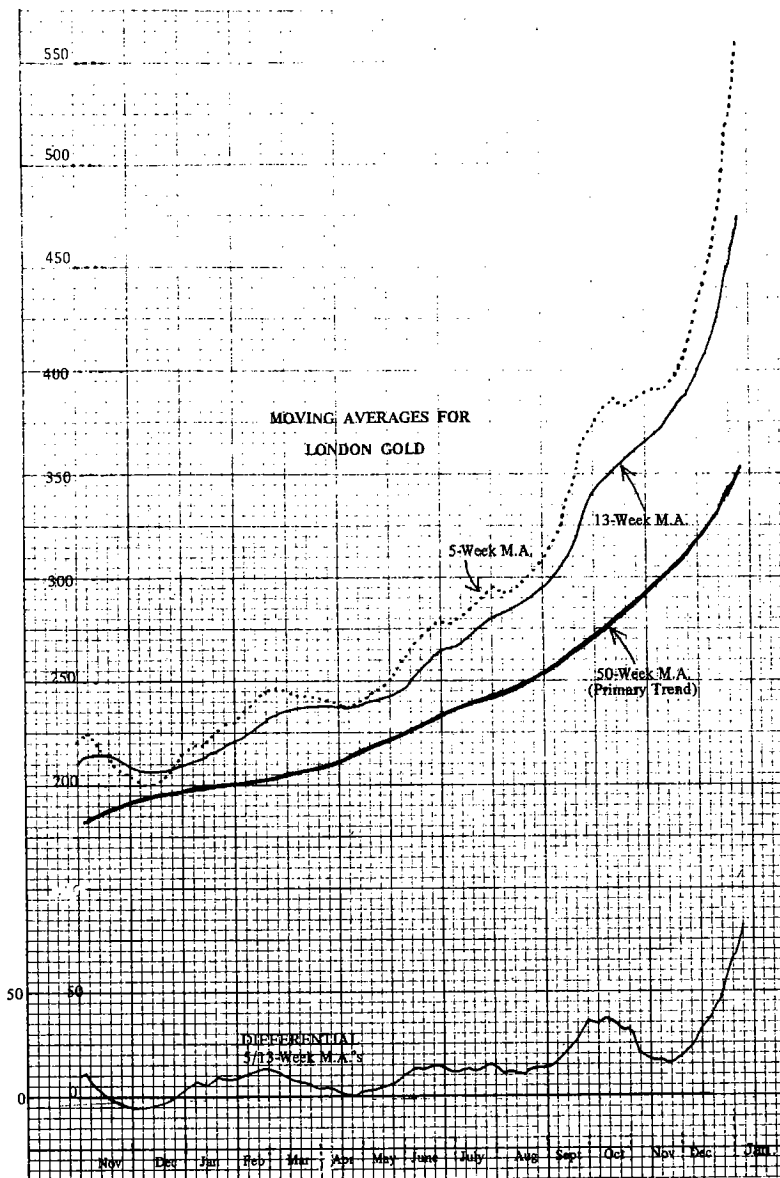
The 5-week MA (which is the shortest and most sensitive) was 473.08 on Dec. 28, 519.05 on Jan. 4, and the latest reading for Jan. 11 is 560.63. That's moving up at the rate of 40-50 points a week, which obviously is a panic buying situation. The intermediate term or 13-week MA is now 477. The differential between the 5 and the 13-week MA's is shown below, and this differential is now at a record 83.62 points. As long as the differential is plus at all, the moving average study is in a bullish mode, so there's no question of the bullish mode at this point.

The 50-week MA or the primary trend line of gold stands at 353.36 and has been climbing at an accelerating rate, a rate which is now 11 points per week. The 13-week MA is an amazing 123 points above the 50-week MA, and this is also a record.

For long-term perspective, I include my monthly chart of gold going back a decade to 1970. As I classify it, gold is now in its second major upward wave from the 35 low, this is wave II to III. Incredibly, the force of this wave has taken gold above its upper trendline, and on a strict technical interpretation this constitutes a blow-off move which renders the price structure vulnerable. Is it really vulnerable? No one, I repeat NO ONE knows. Would I buy gold here? Personally, I wouldn't, but maybe I'm too used to "normal" markets and normal market corrections.

S. Africa is going to come out with a $\frac{1}{4}$ Krugerrand, so there's going to be "something for everyone," and eventually even our Senators and Congressmen may be turning in their dollars for gold. But the fact is that the preference for gold over dollars

is becoming a national disgrace. In time, the full horror of what we have done to ourselves and our citizens will be out in the open—for all to see. Unless—unless Americans slap legal chains (in the form of new laws) on their own representatives and stop them from spending us into national poverty.



NEXT MAILING: January 30th